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BALTIMORE AIRCOIL COMPANY, INC.

Annual Report 1966

20TH

ANNUAL REPORT

TO THE

STOCKHOLDERS

*Canadian plant
moving to Georgetown
from Brampton.*

BALTIMORE AIRCOIL COMPANY, INC. AND SUBSIDIARIES

DIRECTORS

HOWARD H. CONAWAY

Partner—Frank, Bernstein, Conaway & Goldman

DONALD W. DUNCAN

Treasurer—Baltimore Aircoil Company, Inc.

JOHN ENGALITCHEFF, JR.

Chairman of the Board—Baltimore Aircoil Company, Inc.

THOMAS F. FACIUS

Vice President, Engineering—Baltimore Aircoil Company, Inc.

WILLIAM E. KAHLERT

President—Baltimore Aircoil Company, Inc.

FREDERICK M. LONG

Vice President, Marketing—Baltimore Aircoil Company, Inc.

JOHN A. LUETKEMEYER

President—The Equitable Trust Company

WILLIAM J. PRICE, III

Partner—Alex. Brown & Sons

OFFICERS

JOHN ENGALITCHEFF, JR.

Chairman of the Board

WILLIAM E. KAHLERT

President

THOMAS F. FACIUS

Vice President, Engineering

FREDERICK M. LONG

Vice President, Marketing

ROBERT E. MILLER

Vice President, Refrigeration & Industrial Sales

WILLIAM BROWN

Vice President, Production

HOWARD H. CONAWAY

Secretary

DONALD W. DUNCAN

Treasurer

THOMAS P. BELLER

Assistant Secretary—Assistant Treasurer

TRANSFER AGENT

THE EQUITABLE TRUST COMPANY

Baltimore, Maryland

GENERAL COUNSEL

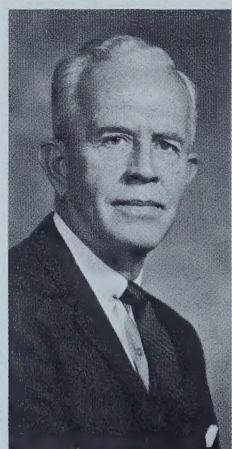
FRANK, BERNSTEIN, CONAWAY & GOLDMAN

Baltimore, Maryland

CERTIFIED PUBLIC ACCOUNTANTS

PEAT, MARWICK, MITCHELL & CO.

Baltimore, Maryland



JOHN ENGALITCHEFF, JR.
Chairman of the Board



WILLIAM E. KAHLERT
President

THE CHAIRMAN'S MESSAGE

TO THE STOCKHOLDERS:

It is with pleasure that I can report to you that 1966 marked another year in which record sales and earnings were attained. Even of greater importance, perhaps, it was a year during which the Company expanded its capacity both in terms of plant and people.

Net earnings in the year 1966 were \$724,200 or \$1.72 per share, which represents an increase of 6% over \$681,842 or \$1.62 per share earned in the year 1965. Orders received during the year for the first time exceeded \$11,000,000. Sales (shipments) were \$10,760,455, which was an increase of 29% over 1965. The backlog of orders received and not shipped as of December 31, 1966, was 14% greater than the backlog at the end of 1965.

In the year 1966 several developments of major importance to the Company took place. First, steps were taken this year to equip ourselves for future growth. The major accomplishment in this regard was the completion of our new plant in California. This plant significantly increases the production capacity of the Company and enables us to better serve an important market. Because of construction delays and the usual problems associated with starting up a new facility, the plant did not reach a profitable level of operation until late in 1966. The Company also purchased 36 acres of land adjacent to its plant site near Baltimore during the year. Acquisition of this prime industrial property when it became available in 1966 assures us room for growth and expansion when required. Further, in 1966 the Company increased its staff of technical and sales personnel to fulfill the needs of our growing company.

The second development of significance that occurred during the year was the slowdown in building activity primarily resulting from tight money conditions. The effect of this development on the Company was to cause a slowing down in the rate of shipments to our customers. While we had the orders in hand, our customers extended the delivery dates. The fourth quarter of 1966 particularly felt the effects of this slowdown.

As a consequence of these aforementioned developments, our operating costs, as related to sales, were higher than normal. We expect the ratio will be restored to more favorable levels in 1967.

Research and Development continues to play an important role in the Company's growth. The new

line of industrial product coolers introduced to the trade in 1966 is receiving excellent market acceptance and should contribute substantially to sales and earnings in the future. During the year we also introduced a new mass-produced version of our larger size cooling towers. Because of their design and the production techniques used, these units can be offered to our customers at a lower cost and with many advantages not previously available in this price range. Further new product developments are under preparation to extend the Company's potential for increased growth.

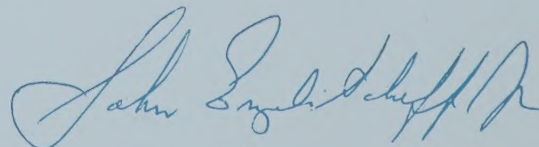
Included in this Report is an explanation of the serious water problem facing this country. The shortage of water described is not confined to the United States. It is worldwide, and sales of B.A.C. equipment overseas have risen sharply in the past few years.

To take better advantage of the continuing demand for our products abroad, your Company has expanded its International Department to handle direct export sales to our foreign customers, and has opened a regional office in Brussels. There now are 18 sales representatives selling our products overseas in addition to the 51 representatives in 67 offices throughout the United States and Canada. Sales of our Australian and South African licensees increased substantially in 1966, which further reflects the global demand and acceptance of Baltimore Aircoil products.

In the Spring of 1966, three major stockholders of the Company offered and sold 105,000 shares of the Company's stock to the public. This sale has served to create a broader interest in the Company's activities and the number of stockholders was increased from approximately 400 to 1,200.

The quarterly cash dividend was increased in October, 1966 by 20% to 7½¢ per share.

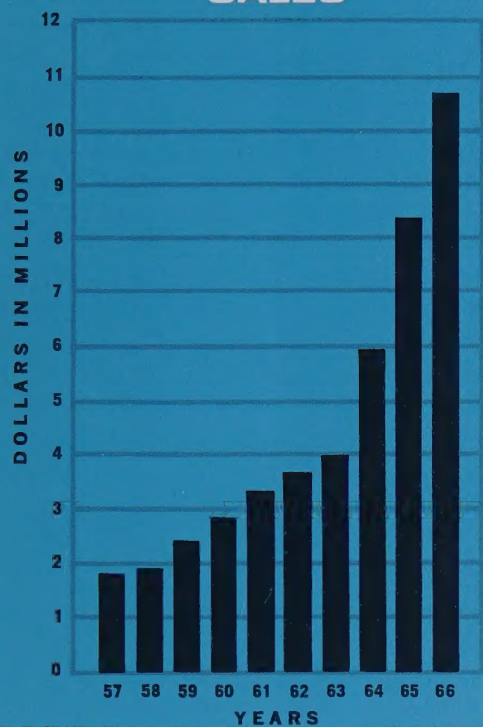
The Board of Directors joins me in expressing our appreciation and thanks to our stockholders and loyal employees.



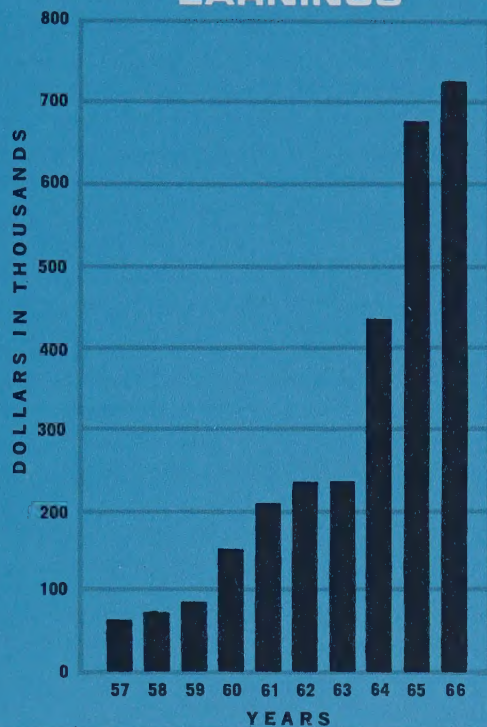
JOHN ENGALITCHEFF, JR.
Chairman of the Board
March 21, 1967

COMPANY GROWTH FOR THE TEN-YEAR PERIOD 1957-1966

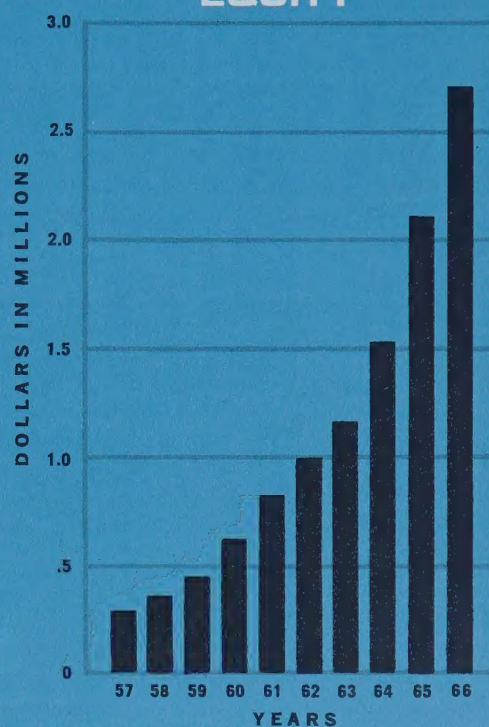
SALES



NET EARNINGS



STOCKHOLDERS' EQUITY



DOMESTIC AND GLOBAL OPERATIONS

● — Main Plant and Subsidiary Plants

▲ — Licensee Plants

● — Sales Offices

Baltimore Aircoil and the Water Problem

As a people we have come to take water for granted and assume that the supply is limitless. We usually think of it as a household commodity which we drink and with which we cook and wash. But, water is one of this country's most precious natural resources and it is being flagrantly wasted and contaminated.

It is generally agreed that the country's supply of usable water available from all sources now and in the foreseeable future is 550 billion gallons per day. The daily water requirements in the United States at the present time total 355 billion gallons. Of this, industry requires 192 billion gallons, agriculture 138 billion gallons, and municipalities and households 25 billion gallons. While this amount of water is "used" daily, it is not all "consumed" as much of it is returned to streamflow.

It has been estimated that by 1980 the nation's water requirements will equal or exceed the available supply of usable water. Of course, this supply is not evenly distributed across the country, and even now there are critical water shortages in some sections.

Government and industry have somewhat belatedly become aware of the problem facing the nation now and in the future. Congress has created a Cabinet-level Water Resources Council and has instituted a ten-year program of grants to States for water resources planning. Three recognized approaches to alleviating the situation are: increasing the water supply by desalination of seawater, anti-pollution measures, and more extensive water re-use.

Desalination is a long-range program. At present, it is expensive and its use is largely limited to coastal areas because of the cost of distribution.

Congress, the States and municipalities have enacted, or are considering, anti-pollution laws to protect the usable condition of our water sources. This too is a long-range program.

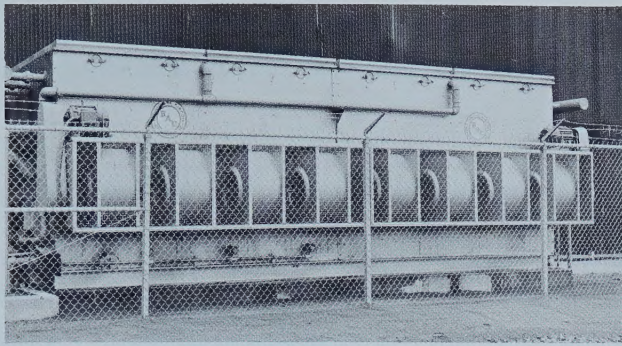
Water re-use is the quickest and least expensive means of helping to minimize both the current and anticipated water shortages. This is where Baltimore Aircoil fits into the national water picture. The Company is primarily a manufacturer of water-saving devices — evaporative condensers, cooling towers and

closed circuit coolers. Each of these products takes water that is used for cooling in industrial processes, packing plants, food processing, air conditioning, etc., cooling it by evaporation so that it can be recirculated and re-used. By this process ninety-five percent (95%) of the water used is saved and re-used over and over again, as compared to once-through systems where all the water is disposed of after it is used one time. Examples of the dramatic advantages to be obtained by industrial and commercial installations in using water-saving devices such as those manufactured by Baltimore Aircoil are shown in the illustrations to the right.

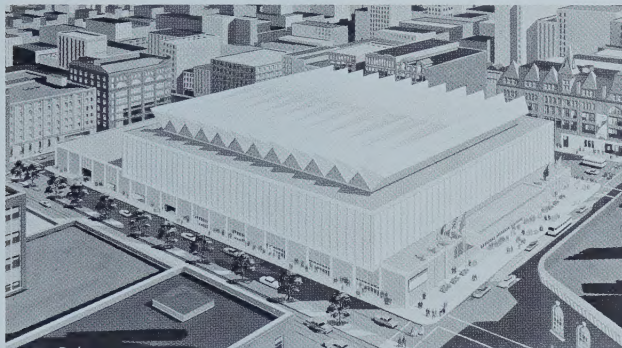
Industry is still disposing of vast quantities of water used for cooling purposes which with the use of water-saving devices could be used over and over again. As the nation's population and the industry to serve it increase, the demand for water will become ever greater. In view of the limited supply available, it seems inevitable that more and more water-saving devices will be required.

Baltimore Aircoil Company is right in the middle of that problem, and intends to maintain and improve its position in the field of water conservation.



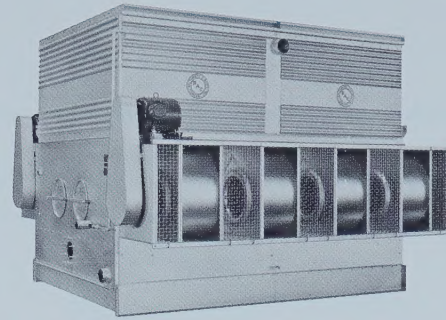


The photograph above shows a closed-circuit cooler which is serving one of Bethlehem Steel's operations. Before the unit was installed, the plant was using 408,000 gallons of water per day. The B.A.C. cooler has cut this consumption to less than 20,000 gallons a day and has reduced water and sewage charges. In addition, the unit is providing clean cooling water to welding machines, transformers, and air compressors, thereby substantially reducing maintenance and lost production time.

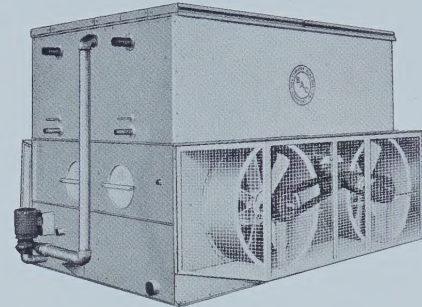


When there is a full house at Baltimore's Civic Center, as much as 300,000 gallons of water per hour are needed by the cooling systems to remove the heat. To avoid wasting the water after it is used, four Baltimore Aircoil cooling towers are installed in the building to recirculate and reuse 95% of the water. Consumption is reduced to only 15,000 gallons per hour instead of 300,000 and the savings in reclaimed water pays for the equipment many times over.

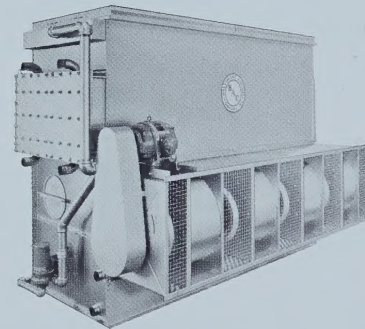
B.A.C. Water-Saving Products



340-Ton Cooling Tower



350-Ton Evaporative Condenser



Closed-Circuit Cooler



CONSOLIDATED BALANCE SHEET

December 31, 1966 with comparative figures for 1965

Assets

Current assets:

	1966	1965
Cash	\$ 178,418	\$ 113,030
Accounts receivable, less allowance for doubtful accounts, \$19,444 (\$14,243 in 1965)	1,675,584	1,396,773
Inventories (note 2):		
Finished units	54,063	53,964
Work in process	739,606	541,498
Materials and supplies	492,458	503,327
Total inventories	1,286,127	1,098,789
Prepaid expenses	91,206	27,378
Total current assets	3,231,335	2,635,970
Cash surrender value of life insurance	54,132	44,443
Plant and equipment, at cost:		
Land	273,953	31,379
Buildings	1,612,591	1,137,908
Machinery and equipment	1,387,353	1,081,928
Construction in progress	—	141,482
	3,273,897	2,392,697
Less accumulated depreciation and amortization	896,368	673,025
	2,377,529	1,719,672
Cash allocated for additions	—	335,000
Net plant and equipment	2,377,529	2,054,672
Deferred charges and other assets	39,121	32,286
	\$5,702,117	\$4,767,371

Liabilities and Stockholders' Equity

Current liabilities:

	1966	1965
Notes payable	\$ 454,369	\$ 71,603
Current portion of long-term debt	164,490	129,461
Accounts payable	271,811	307,783
Dividend payable	31,620	26,350
Accrued expenses	293,072	225,497
Provision for profit sharing (note 3)	452,663	394,379
Federal , state and Canadian income taxes (note 4)	326,707	506,621
Total current liabilities	1,994,732	1,661,694
Long-term debt, less current portion (note 5):		
Mortgages payable	688,455	595,008
Note payable	300,000	400,000
Total long-term debt	988,455	995,008
Stockholders' equity:		
Common stock of 83-1/3¢ par value per share.		
Authorized 900,000 shares; issued 421,584 shares	351,320	351,320
Capital in excess of par value of common stock	93,830	93,830
Retained earnings	2,273,780	1,665,519
Total stockholders' equity	2,718,930	2,110,669
	\$5,702,117	\$4,767,371

See accompanying notes to consolidated financial statements.

STATEMENT OF CONSOLIDATED EARNINGS AND RETAINED EARNINGS

Year ended December 31, 1966 with comparative figures for 1965

	1966	1965
Net sales	\$10,760,455	\$8,340,964
Cost of sales	6,900,976	5,160,581
Gross profit	3,859,479	3,180,383
Selling and administrative expenses	2,426,195	1,843,145
Operating profit	1,433,284	1,337,238
Other deductions (income):		
Interest	91,717	50,187
Royalties	(52,219)	(36,967)
Miscellaneous	(9,414)	(4,824)
	30,084	8,396
Earnings before income taxes	1,403,200	1,328,842
Federal, state and Canadian income taxes (note 4)	679,000	647,000
Net earnings	724,200	681,842
Retained earnings at beginning of year	1,665,519	1,083,804
	2,389,719	1,765,646
Dividends declared — \$.275 per share (\$.2375 in 1965)	115,939	100,127
Retained earnings at end of year	\$ 2,273,780	\$1,665,519
Depreciation and amortization	\$ 226,665	\$ 173,808

See accompanying notes to consolidated financial statements.

ACCOUNTANTS' REPORT

The Board of Directors
Baltimore Aircoil Company, Inc.:

We have examined the consolidated balance sheet of Baltimore Aircoil Company, Inc. and subsidiaries as of December 31, 1966 and the related statement of earnings and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statement of consolidated earnings and retained earnings present fairly the financial position of Baltimore Aircoil Company, Inc. and subsidiaries at December 31, 1966 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

February 9, 1967

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1966

(1) Principles of consolidation:

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries, Baltimore Aircoil of California, Inc. and Baltimore Aircoil of Canada Limited. All intercompany accounts and transactions have been eliminated. The plant of the California subsidiary was completed in 1966 and its first shipments were made in July.

(2) Inventories:

Materials and supplies are valued at the lower of latest cost or replacement market. Work in process (which includes manufactured component parts) and finished units are valued at cost; such cost includes a fair proportion of manufacturing overhead and does not exceed net realizable value.

(3) Profit sharing and retirement plans:

In 1966 the subsidiary companies adopted profit sharing plans similar to the existing plan in effect for the parent company. Under the plans, each company is required to distribute to its employees a specified percentage of its earnings for the year before provision for such profit sharing and before income taxes. The profit sharing distributions aggregated \$452,663 for 1966 and \$394,379 for 1965. The distributions are payable in cash in equal installments on July 1 and December 1 of the succeeding year, except that employees of the parent company may direct the company to pay to the trustee a certain portion of their shares as supplemental contributions to the company's retirement plan.

Under the parent company's retirement plan, it is required to make contributions to the trustee of the plan amounting to 2% of the total salaries or wages of its eligible employees (exclusive of payments made under the profit sharing plan). Such contributions amounted to \$36,607 for 1966 and \$28,764 for 1965.

The companies have reserved the right to amend or terminate the profit sharing and retirement plans.

(4) Federal income taxes:

The investment credit of \$22,478 (\$18,838 in 1965) has been applied to reduce the provision for Federal income taxes.

(5) Long-term debt:

The noncurrent portion of long-term debt is summarized as follows:

	1966	1965
Mortgages payable:		
5.875%, due in monthly installments of \$5,447 (principal and interest) to January 1, 1980....	\$563,768	\$595,008
6%, due in quarterly principal installments of \$8,312 to September 16, 1971	124,687	—
	<u>\$688,455</u>	<u>\$595,008</u>
Unsecured note payable, due in quarterly installments of \$25,000 to December 30, 1970 with interest at 5-1/2% per annum	300,000	400,000
	<u>\$988,455</u>	<u>\$995,008</u>

The 5.875% mortgage is secured by land and buildings having a net book value of \$1,077,883 at December 31, 1966 and may be prepaid in full after 1972, subject to a premium of 5% in the first year and declining rates thereafter. The 6% mortgage is secured by unimproved land carried at \$241,236.

(6) Commitment:

The Canadian subsidiary leases its plant under an agreement which provides for annual rental payments of \$16,871 Canadian (equivalent to \$15,570 United States at December 31, 1966) plus payment of taxes, insurance and repairs and maintenance. The lease expires March 31, 1975 and, at the option of the subsidiary, may be renewed for two five-year periods on the same terms.

FACILITIES

Five manufacturing plants produce B.A.C. products for distribution throughout the world. The main plant and general offices are in Howard

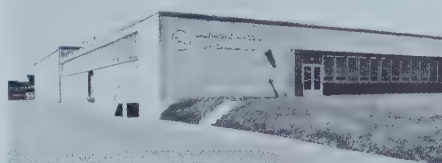
County, Maryland with subsidiaries in Madera, California and Brampton, Ontario. Licensee plants are located in Sydney, Australia and Capetown, South Africa.



*BALTIMORE AIRCOIL COMPANY, INC.
Howard County, Maryland*



*BALTIMORE AIRCOIL OF CALIFORNIA, INC.
Madera, California*



*BALTIMORE AIRCOIL OF CANADA LIMITED
Brampton, Ontario*



*BALTIMORE AIRCOIL COMPANY, S.A., PTY. LTD.
Capetown, South Africa (new plant)*



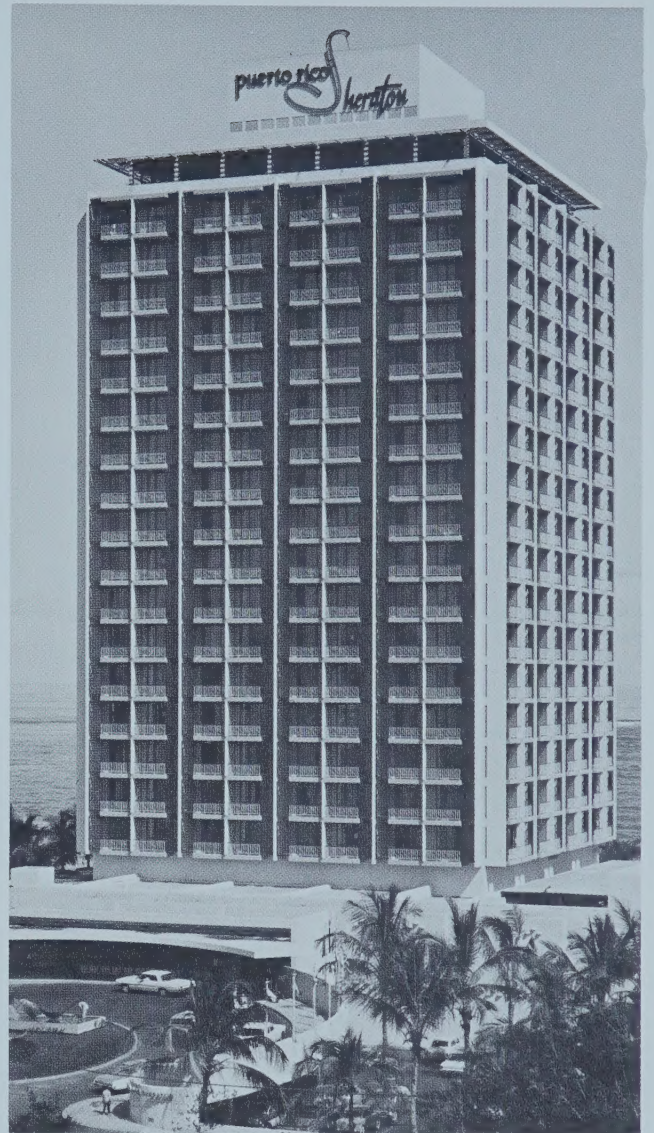
H. T. C. PTY. LTD. — Sydney, Australia

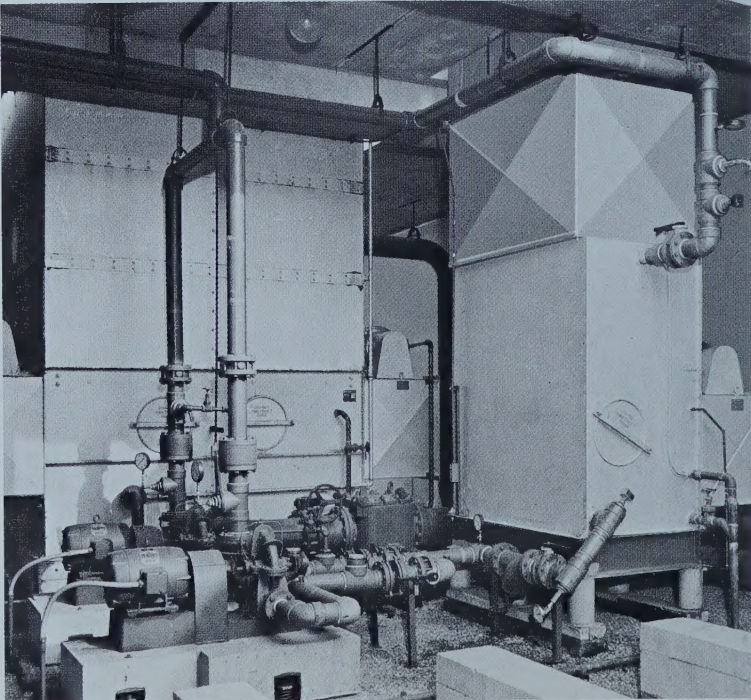
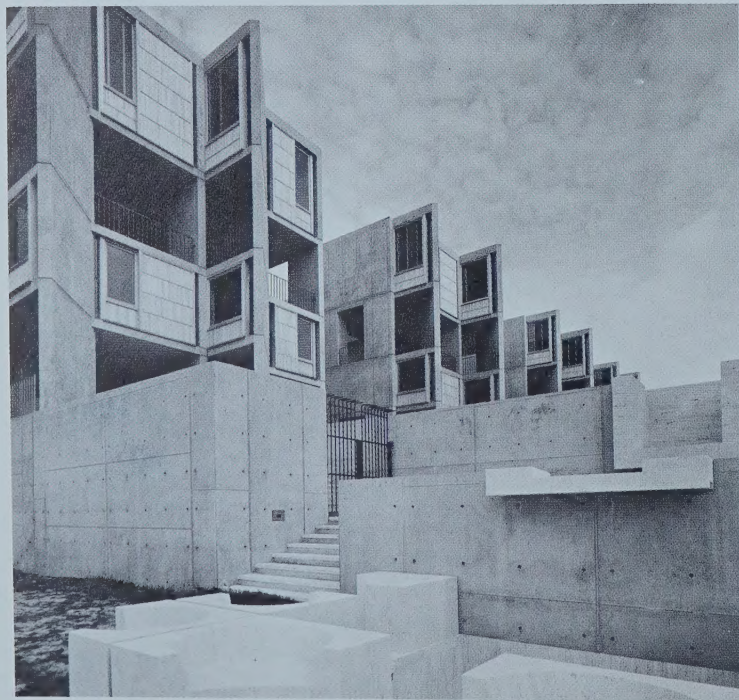
The new Exchange National Bank Building, tallest in Tampa, Florida, has two 400-ton B.A.C. cooling towers on the roof. Because of their compact size, the units were easy to locate in a special enclosure, preserving the unobstructed roofline of the building.

B.A.C. PRODUCTS
SERVE DISTINCTIVE
BUILDINGS AND
MODERN PLANTS
THE WORLD OVER

The adaptability of Baltimore Aircoil units to modern building design has made them a frequent choice for many of the new hotels being built abroad. One of these is the recently completed Puerto Rico Sheraton Hotel (shown at right) which has four 175-ton B.A.C. cooling towers.

Another luxurious hotel with B.A.C. equipment is the Paris Hilton which provides a commanding view of the city and the Eiffel Tower. Baltimore Aircoil units have also been installed on new Hilton hotels in Brussels, Cyprus and Kuwait.





The new U. S. Cold Storage Co. plant in Dallas, Texas has three 350-ton Baltimore Aircoil evaporative condensers. The firm has also built a large new plant in Philadelphia which has four similar B.A.C. units.

In an unusual fish-eye view (far left), a B.A.C. cooling tower is suspended for an instant over the St. Petersburg, Florida skyline. The 150-ton capacity unit is being installed on the Times Publishing Co. building.

St. Louis' magnificent Gateway Arch (immediate left), designed by the late Eero Saarinen and completed in 1966, symbolizes the city as the "Gateway to the West." Regarded as an important engineering feat, the Arch is another of the challenging architectural structures for which Baltimore Aircoil equipment is especially suited. A 650-ton cooling tower, installed below grade, serves the bi-level underground exposition area and the observation room at the apex of the Arch.

Two B.A.C. cooling towers are installed indoors at the Salk Institute for Biological Studies, a starkly handsome research laboratory overlooking the Pacific in La Jolla, California. The units are serving the air conditioning system which is critical for the experimental research being conducted at the Institute.





BALTIMORE AIRCOIL COMPANY, INC.

Post Office Box 7322, Baltimore, Maryland 21227